



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

October 17, 2002

CIN: A-05-02-00052

Mr. John Czech  
Corporate Senior V.P., Revenue Management  
Ingalls Hospital  
One Ingalls Drive  
Harvey, Illinois 60426

Dear Mr. Czech:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services, (OAS) final report entitled "Review of Medicare Inpatient Acute-Care Bad Debts at Ingalls Hospital for Fiscal Year 1999". A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-05-02-00052 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script, reading "Paul Swanson", is written over the typed name.

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Dorothy Burk Collins, Regional Administrator  
Centers for Medicare and Medicaid Services  
233 N. Michigan Avenue, Suite 600  
Chicago, IL 60601

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICARE INPATIENT  
ACUTE-CARE BAD DEBTS AT  
INGALLS HOSPITAL FOR FISCAL  
YEAR 1999  
INGALLS HOSPITAL  
HARVEY, ILLINOIS**



**JANET REHNQUIST**  
Inspector General

**OCTOBER 2002**  
A-05-02-00052



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October 17, 2002

CIN: A-05-02-00052

Mr. John Czech  
Corporate Senior Vice President,  
Revenue Management  
Ingalls Hospital  
One Ingalls Drive  
Harvey, Illinois 60426

Dear Mr. Czech:

This final report presents the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) audit titled "Review of Medicare Inpatient Acute-Care Bad Debts at Ingalls Hospital for Fiscal Year 1999". We performed this review in conjunction with a nationwide audit of Medicare inpatient bad debts. The objective of our audit was to determine if Medicare inpatient acute-care bad debts claimed by Ingalls Hospital (Ingalls) on its cost report for the fiscal year (FY) ended September 30, 1999 met Medicare requirements. The Medicare program reimburses hospitals for bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible after all required collection efforts have been exhausted. Although our audit found that Ingalls generally claimed inpatient acute-care bad debts on its FY 1999 cost report in accordance with Medicare reimbursement requirements, we noted some minor exceptions resulting in questioned bad debt claims of \$6,668.

We are recommending that Ingalls: (1) coordinate with the Fiscal Intermediary (FI) to adjust their FY 1999 cost report by \$6,668 for overstated inpatient acute-care bad debts and (2) reemphasize the need to assure that Medicare bad debts claimed meet Medicare reimbursement requirements.

Ingalls concurred with the findings and recommendations presented in the report. They have initiated an educational in-service for employees regarding the identification of allowable Medicare bad debts.

## **INTRODUCTION**

### **BACKGROUND**

Since Medicare policy states that beneficiaries should share in the costs of inpatient care through various deductibles and coinsurance amounts and hospitals have historically been unable to collect a certain percentage of Medicare coinsurance and deductible amounts from program beneficiaries, reimbursements of bad debts were authorized, if hospitals comply

with established collection requirements. Therefore, under Medicare policy, costs attributable to Medicare beneficiaries are not to be shifted to non-Medicare patients. This policy was adopted in 1966 when Medicare reimbursed hospitals retrospectively under reasonable cost principles. Beginning in 1983, inpatient hospital care was reimbursed under a prospective payment system (PPS). Under Medicare's PPS, bad debts are pass-through costs and continue to be reimbursed under reasonable cost principles. Hospitals claim reimbursement for these bad debts by submitting an annual Medicare cost report.

Under Section 1861(v)(1)(T) of the Social Security Act, the amount of allowable bad debt for cost reporting periods beginning during fiscal year (FY) 1998 was reduced 25 percent. For FY 1999 the amount of allowable bad debt was reduced 40 percent and for FY 2000 it was reduced 45 percent. For the FYs subsequent to FY 2000 it will be reduced to 30 percent.

Bad debts resulting from Medicare deductible and coinsurance amounts that are uncollectible from beneficiaries can be reimbursed to hospitals if:

- the debt is related to covered services and derived from deductible and coinsurance amounts;
- the provider is able to establish that reasonable collection efforts were made;
- the debt was actually uncollectible when claimed as worthless; and
- sound business judgment established that there was no likelihood of recovery at any time in the future.

Many Medicare beneficiaries have a third-party responsible for deductible and coinsurance liabilities. Under certain circumstances, a State Medicaid agency may be responsible for individuals eligible for both Medicaid and Medicare, as well as other low-income individuals. If the State Medicaid agency appropriately processes and denies payment on the Medicare deductibles and coinsurance, the provider is not required to exert further collection efforts upon the individual.

The Medicare Provider Reimbursement Manual (PRM), Section 310.B, requires that the provider's collection effort be documented in the patient's file, and PRM, Part II, Section 1102, requires that listings be maintained of beneficiaries whose uncollected accounts were claimed as bad debts. Allowable bad debts must relate to specific deductibles and coinsurance amounts. Under the terms of PRM, Part I, Section 314, uncollectible deductible and coinsurance amounts are recognized as allowable bad debts in the reporting period in which the debts are determined to be worthless.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

Our audit was made in accordance with generally accepted government auditing standards. The objective of our audit was to determine whether Medicare inpatient acute-care bad debts claimed by Ingalls on its FY 1999 cost report met Medicare requirements. The audit was

performed as part of a nationwide audit of Medicare inpatient bad debts. Ingalls provided a disk containing computerized listings of patients claimed as bad debts. We limited our review to inpatient acute-care claims. In FY 1999, Ingalls claimed 1,195 inpatient acute-care bad debts totaling \$887,738.

To accomplish our objective, we:

- Selected a statistical sample of 100 inpatient acute-care bad debt claims with a claim value equal to or less than \$2,000. The sampled claims amounted to \$69,688, out of a universe of \$835,499.
- Selected and reviewed all 16 inpatient acute-care bad debt claims with a value greater than \$2,000, which amounted to \$52,239.
- Examined the following documentation:
  - Patient account history,
  - Medicare remittance information,
  - Medicaid remittance information (if applicable),
  - Collection agency activity records, and
  - Communications from third party payers.

In addition, we reviewed Medicare and Medicaid bad debt criteria and Ingalls policies and procedures related to the accounting for and collection of patient account balances. We also met with the FI to discuss prior bad debt reviews performed at Ingalls. In performing our audit work, a detailed review of internal controls was not performed because the objective of our review was accomplished through substantive testing.

We conducted our fieldwork at Ingalls between March and May 2002.

## **FINDINGS AND RECOMMENDATIONS**

Although Ingalls established policies and procedures for identifying and collecting bad debts, unallowable claims of \$6,668 in inpatient acute-care bad debts were made on its FY 1999 cost report. Specifically, we found that:

- Debt was valid and related to covered services and derived from deductible and coinsurance amounts;
- Collection efforts were reasonable;
- Debt was uncollectible when reported as a bad debt; and
- There was no likelihood of recovery at any time in the future.

However, our audit identified some minor errors resulting in bad debts being overstated \$6,668. Unallowable bad debts of \$2,084 pertained to data entry errors in preparing the bad debt listing, clerical errors in billing Medicaid, posting collections to the bad debt listing, and \$4,584 for sampled items cancelled as non-covered by the FI. Prior to compiling the sample universe, we identified two duplicate data entry errors on the bad debt listing, one for \$719 and the other for \$21. One of the clerical errors, identified during our review of the sampled bad debts, was due to the late submission of a properly billed claim to the State Medicaid agency. If the claim had been billed correctly within the one year time frame, Medicaid would have reimbursed Ingalls \$842. The other error, in the amount of \$502, was attributed to a payment being received by the collection agency for a Medicare deductible but not subsequently posted to the bad debt listing as a recovery.

In regard to the two sampled bad debts (for the same beneficiary) totaling \$4,584, the bad debts were written-off in accordance with Medicare reimbursement regulations but were cancelled based on the FI determination that all charges were non-covered and, thus, ineligible to be claimed as a Medicare bad debt. We discussed these errors with Ingalls officials who agreed with our findings.

Although Ingalls generally claimed inpatient acute-care bad debts on its FY 1999 cost report in accordance with Medicare requirements, the cited exceptions resulted in unallowable bad debts of \$6,668.

## **RECOMMENDATIONS**

We recommend that Ingalls:

1. Coordinate the \$6,668 adjustment with the FI and
2. Stress to its employees the need to assure that only allowable Medicare bad debts are claimed.

## **AUDITEE RESPONSE**

Ingalls hospital officials commented on our draft report (see Appendix A) and they concur with the OIG recommendations. The officials stated that an educational in-service for employees regarding the identification of allowable Medicare bad debts has been initiated.

To facilitate identification, please refer to the OIG/OAS Common Identification Number (CIN) A-05-02-00052 in any correspondence related to this report.



Paul Swanson  
Regional Inspector General  
for Audit Services

Attachments

# APPENDIX

**INGALLS HOSPITAL**

ONE INGALLS DRIVE  
HARVEY, ILLINOIS 60426  
708.333.2300

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September 11, 2002

Mr. Paul Swanson  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
Office of Audit Services  
233 N. Michigan Avenue Suite 1360  
Chicago, IL 60601

Dear Mr. Swanson:

We have received your draft report entitled "Review of Medicare Inpatient Acute-Care Bad Debts at Ingalls Hospital for Fiscal Year 1999" and appreciate the opportunity to provide our comments before the final report is issued.

As stated in the recommendations, Ingalls Hospital has initiated an educational in-service for those employees involved in identifying allowable Medicare bad debts. We agree that the inpatient Medicare bad debts claimed on the 1999 cost report were overstated by \$6,668.

Thank you again for your staff's positive comments related to our providing the supporting information in a timely and efficient manner.

Sincerely,

A handwritten signature in cursive script that reads 'John Czech'.

John Czech  
Corporate Senior Vice President  
Revenue Management

Cc: K. Johnson, CEO  
M. Viduarri, COO  
V. Pryor, CFO  
S. Adams, Director, PFS